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DEFENSE
INFRASTRUCTURE

Challenges Facing DOD in
Implementing Reform
Initiatives

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Mr. Chairman and Members of the Subcommittee:

We are pleased to be here today to provide our observations on selected Defense Reform Initiatives pertaining to facilities infrastructure. You have recently expressed concern about the Department of Defense's (DOD) management and upkeep of its infrastructure and its long-term plans for facilities modernization and recapitalization. Our statement today discusses (1) the need for infrastructure reform; (2) the significant challenges DOD faces in implementing its infrastructure initiatives and achieving significant savings in the short term; and (3) the need to integrate these initiatives into an overall facilities infrastructure plan.

In the November 1997 Defense Reform Initiative (DRI) Report, the Secretary of Defense emphasized the need to reduce excess Cold War infrastructure to free up resources that otherwise could be spent on modernization. Specific initiatives cited in the report included privatizing military housing and utility systems, emphasizing demolition of excess buildings, consolidating and regionalizing many defense support agencies, and requesting legislative authority to conduct two additional base closure rounds. The Secretary noted that DOD continued to be weighed down by facilities that are too extensive for its needs, more expensive than it can afford, and detrimental to the efficiency and effectiveness of the nation's armed forces. Likewise, he noted that DOD must do a better job of managing facility assets on its remaining bases.

Before discussing our specific observations, we would like to briefly summarize our key points.

Results in Brief

First, infrastructure reform within DOD is an extremely difficult task but one that is very much needed. Therefore, we strongly support the need to further reduce excess support infrastructure, as well as the need for improved planning to address remaining infrastructure needs. Our work continues to show that significant opportunities remain to further streamline operations, consolidate functions, eliminate duplication of effort, and improve efficiency. These opportunities must be fully embraced if DOD is to achieve the level of savings it is expecting for use on other priorities. Our work to date shows that DOD has had little success in shifting resources from inefficient activities to other priorities.

Second, we are concerned about DOD's ability to achieve the expected level of savings and question whether many of the initiatives can overcome

significant challenges and be implemented in a timely, efficient, and effective manner. Our work relating to various defense reform initiatives shows that estimated savings often are not as great as first estimated and that the initiatives often take much longer than expected to be achieved. The following are some key points we believe the Congress and DOD should take into consideration as they assess expected results of DRI initiatives involving facilities infrastructure:

- The military housing privatization initiative offers a powerful new tool to help address the military's housing problem. However, implementation is off to a slow start and it is unclear whether the initiative will result in overall budget savings. Other concerns include risks associated with long-term privatization agreements for on-base housing and the need for better integration of this initiative with other available tools for addressing the services' housing needs.
- Demolition can be a viable option for reducing excess structures and operating costs on military bases. However, up-front investment costs are required and can vary by type of structure. While this program recently has received increased emphasis within DOD, the availability of funding, against other competing priorities in a constrained budget environment, could affect implementation over time.
- Despite their potential, most of the initiatives to consolidate, restructure, and regionalize many of its support agencies have been going on for several years and still face implementation challenges. Interservicing support offers the services opportunities to achieve savings, but individual service prerogatives and institutional resistance can constrain their use on a large-scale basis.
- While we believe there are significant savings from prior base realignment and closure (BRAC) rounds, questions continue to exist about the magnitude of savings. Higher than initially estimated up-front costs caused savings not to be realized as quickly as hoped. Also, because DOD had not adequately tracked changes in initial savings estimates, questions have existed about the reliability of the savings projections. The magnitude of savings expected from the two additional rounds of military base closures, which have been requested by DOD, can only be roughly approximated at this time, and as was the case with prior rounds, successful implementation will require substantial up-front costs.

Third, the Secretary of Defense's identification of the need to shed excess infrastructure as a key component of the Defense Reform Initiatives has brought high-level attention to this area. However, the services currently lack comprehensive long-range plans to guide them in reducing excess

infrastructure and better managing remaining assets. Plans that have existed have not provided comprehensive strategies for facilities revitalization, replacement, and maintenance, and they have not been adequately tied to measurable goals to be accomplished over specified time frames with linkages to expected funding. The need for such planning is underscored by the requirements of the Government Performance and Results Act.

Background

The Secretary's November 10, 1997, DRI was DOD's latest effort to reform operations and processes. The report was an outgrowth of recommendations made in the Report of the Quadrennial Defense Review.¹ The Quadrennial Defense Review report noted that, while DOD had reduced active duty personnel by 32 percent between 1989 and 1997, it had reduced the number of people performing infrastructure functions by only 28 percent. That report called for significant additional reductions in military and civilian personnel. Reductions called for by the Quadrennial Defense Review and others already planned by DOD would reduce military and DOD civilian personnel end-strength levels by an additional 59,000 and 130,000 positions, respectively, below their fiscal year 1998 levels.

The DRI report also lays out plans to reduce support costs by emphasizing demolition of excess buildings, consolidating and regionalizing many defense support agencies, and requesting legislative authority to conduct two additional base closure rounds. Privatization initiatives involving housing and utilities were described by the DRI report as a means of leveraging private sector capital to revitalize those facility areas that continue to be needed by the military.

Most infrastructure savings identified by the DRI report were expected from additional BRAC rounds.² The Secretary of Defense recently submitted a legislative proposal to the Congress requesting authority for two additional BRAC rounds, one in 2001 and another in 2005. The DRI report acknowledges up-front investment costs will be required to implement those rounds, but projects that each of them would provide annual recurring savings of \$1.4 billion after the closures have been implemented.

¹The Quadrennial Defense Review was required by the National Defense Authorization Act for Fiscal Year 1997; it was intended to provide an examination of America's defense needs from 1997 to 2015, including a blueprint for a strategy-based, balanced, and affordable defense program.

²Apart from BRAC, the largest category of other savings identified in the DRI report are those that are expected to be realized from outsourcing competitions involving commercial activities. DOD is expecting to realize \$6 billion in savings from these studies over the next 5 years, and \$2.5 billion each year thereafter.

An important element of the Defense Reform Initiative is that the Secretary has established a Defense Management Council to serve, in effect, as DOD's internal board of directors. The primary mission of this Council, which is chaired by the Deputy Secretary of Defense and includes many of DOD's senior managers, is to monitor progress of the management reforms, seek new solutions and reengineering opportunities, and assist the Secretary in overseeing the activities of the military departments and defense agencies. This Council, if it operates as described, should bring a heightened awareness and sense of importance to DOD's management reforms.

Infrastructure Reform Is Needed to Avoid Wasting Scarce Resources

DOD is faced with transforming its Cold War operating and support structure in much the same way it has been working to transform its military force structure. Making this transition is a complex, difficult challenge that will affect hundreds of thousands of civilian and military personnel at activities in many states across the nation. However, if DOD does not address this challenge now, pressing needs will go unmet, while scarce defense resources will be wasted or used inefficiently. For example, according to DOD, most of its family housing is old, has not been adequately maintained and modernized, and needs to be renovated or replaced. Additionally, many installation commanders previously have told us that constrained repair and maintenance funding was causing them to forego regular preventive maintenance and respond more to emergency breakdowns as they occur. Yet, funds are being spent to operate and maintain aging and underutilized buildings, roads, and other infrastructure that will likely be declared excess by DOD in the near future.

Reducing the cost of excess infrastructure activities is critical to maintaining high levels of military capabilities and adequately maintaining needed facilities infrastructure. Expenditures on wasteful or inefficient activities divert limited defense funds from more pressing needs. DOD has identified net infrastructure savings as a funding source for modernization; however, thus far, anticipated savings have not occurred. As a result, DOD has been unable to shift funds to modernization as planned. At the same time, members of Congress continue to express concern about unmet needs in the facilities infrastructure area.

Since its Bottom-Up Review in 1993, DOD repeatedly has stated that it must reduce its infrastructure to offset the cost of future modern weapon systems. DOD's 1998 Future Years Defense Program projects that infrastructure activities will represent a smaller percentage of the defense

budget than projected in the previous plan. However, in October 1997, we reported that there is substantial risk that the budget will not be implemented as planned.³ For example, DOD's plan projects billions of dollars in savings due to management initiatives but does not have details on how all the savings will be achieved. Another reason we believe the program is at risk is that DOD's estimates for procurement spending, in relation to its total budget and operations and maintenance (O&M) projections, run counter to actual experience over the last 30 years. Since 1965, O&M spending has increased consistently with increases in procurement spending. However, the 1998 program shows that DOD plans to change that historical relationship by increasing procurement while decreasing O&M spending.

The Congress has focused on the issue of infrastructure reductions and recently directed DOD to implement numerous initiatives and report on a variety of issues. The National Defense Authorization Act for Fiscal Year 1998 required DOD to implement initiatives and develop reports on opportunities for infrastructure reduction. For example, the act requires DOD to reduce the number of management headquarters and headquarters support activities personnel by 25 percent between October 1, 1997, and October 1, 2002. The act also requires the Secretary of Defense to report on the costs and savings of previous BRAC actions and the need, if any, for additional BRAC rounds.

Infrastructure Initiatives Face Significant Challenges

The DRI report identifies a range of facility infrastructure initiatives designed to revitalize some facilities; eliminate excess structures; and consolidate, restructure, and regionalize many support agencies and activities. However, the report states that additional BRAC rounds are needed to fully deal with the DOD's problem of excess infrastructure. Now, let me make some observations about individual reform initiatives on the basis of results of our work in those areas.

Military Housing Privatization Initiative Shows Promise but Progress Is Slow

DOD's housing privatization initiative is designed to leverage private sector resources to address pressing needs for military housing much quicker than would be possible relying on traditional military construction funding. However, our ongoing work indicates that efforts to implement recent privatization legislation is off to a slow start within each of the services, potentially endangering DOD's current goal of eliminating all

³Future Years Defense Program: DOD's 1998 Plan Has Substantial Risk in Execution (GAO/NSIAD-98-26, Oct. 23, 1997).

inadequate housing by fiscal year 2010. Questions exist about the costs and savings associated with the new initiative, as well as concerns about the extent to which this new program will be able to address the full range of military housing needs.

Privatization Is Intended to Improve Housing Quickly and Efficiently

As the nation's largest landlord, DOD owns and operates about 300,000 family housing units and about 400,000 unaccompanied barrack spaces. Yet, DOD officials testified in March 1997 that about two-thirds of its family units and about 60 percent of its barrack spaces were below acceptable standards and needed to be renovated or replaced. Given expected budgets and using the traditional approaches, officials said that it would take 30 to 40 years and more than \$30 billion to bring these units up to acceptable standards.

To improve housing faster and more economically, the Congress authorized the Military Housing Privatization Initiative in 1996 to encourage private sector financing, ownership, operation, and maintenance of both military family and unaccompanied housing.⁴ Under this initiative, DOD will test out over a 5-year period a variety of tools to obtain private sector financing, expertise, and management to revitalize both family and unaccompanied housing. These tools permit DOD to provide direct loans and loan guarantees to private entities, convey or lease existing property and facilities to private entities, and allow developers to build military housing using local standards and practices instead of using military construction specifications. As tenants in the privatized housing, whether on base or off, military occupants would receive a housing allowance and pay rent. The goal of this program is to speed the revitalization and replacement of military housing by encouraging the private sector to invest at least \$3 for each \$1 that the government invests. In this way, DOD plans to build or renovate three times as many units compared with the amount renovated under traditional approaches and, hopefully, eliminate all inadequate housing by fiscal year 2010.

Privatization Is Off to a Slow Start

The housing privatization initiative clearly offers a powerful new tool to help address DOD's housing problem. However, our ongoing review of the initiative has shown that the initiative is off to a slow start and may not achieve the desired results within the expected time frame. Two years have passed since the new authorities were signed into law, but no new agreements have been finalized to build or renovate military housing.

⁴The Congress also authorized a precursor privatization initiative for the Navy in 1995. Under this earlier initiative, the Navy entered into limited partnership agreements with private developers to build new off-base housing in Corpus Christi, Texas, and Everett, Washington.

Although more than a dozen projects are currently being considered and many others have been proposed, only two projects are close to contract signing. According to DOD, progress has been slower than expected because the initiative represents a new way of doing business for both the military and the private sector and many legal, financial, and contractual issues had to be addressed and resolved. While officials believe that progress will accelerate after the learning curve of the first few deals is passed, the slow progress to date raises questions about whether sufficient experience will be gained within the 5-year test period to enable DOD to decide whether to request permanent authorities.

Questions About Savings

Substantial amounts of military construction funds would be needed in the near-term to solve DOD's housing problems more quickly. The new privatization initiative should allow DOD to accelerate revitalization of its housing inventory by securing private sector financing. However, it is unclear precisely what impact the privatization program will have on infrastructure outlays in either the short- or long-term. Some upfront investments still will be required. For example, traditional military construction funding still will be needed as the seed money for privatization projects and for projects not suitable for privatization. Also, until many more units are renovated or built on bases under the program, DOD will need substantial outlays to operate and maintain existing units. Finally, as additional units become privatized, the O&M savings that DOD realizes largely will be offset by increased budgeting for the military personnel account to cover the payment of housing allowances to more families. Service officials believe that the program may, in fact, be budget neutral.

The amount of long-term infrastructure savings are also uncertain. While more data will be needed before any conclusions can be drawn, DOD's life-cycle cost analyses for its first two projects at Fort Carson and Lackland Air Force Base showed that, compared with traditional military construction financing costs, the government will achieve significant savings—24 percent at Fort Carson and 29 percent at Lackland. However, our review of these analyses found that DOD's savings estimates were somewhat high. For example, DOD did not consider all costs and, in some instances, estimates were not based on actual budgeted amounts for O&M costs under the military construction alternative. After adjusting for these factors over the expected 50-year life of these projects, we estimate costs

from privatization will be about 7 to 10 percent less than costs using traditional military construction financing.⁵

In addition to questions concerning costs, privatization includes other questions and concerns. For example, many privatization projects under consideration propose long-term, 50-year agreements between DOD and the developer. Such agreements present several risks, including increased potential that the housing may not be needed in the future, the contractor might not operate and maintain the housing as expected, and civilians might occupy on-base housing if it is not fully used by military members.

Even if the approach is cost-effective, barriers may exist to using the privatization initiative to improve barracks housing. This is because of a determination that the services' mandatory assignment of single junior enlisted personnel to barracks constitutes an occupancy guarantee. Under the budgetary scoring rules established by the Office of Management and Budget (OMB) for the privatization initiative, if members are not free to decline assignment to privatized housing, DOD must set aside funds to cover the entire value of this guarantee up front. Because the value of this guarantee could approximate the amount required under traditional military construction financing, funding for a privatized barracks project would not meet DOD's leveraging goals. This matter is not an issue in family housing because married members are not mandatorily assigned to family housing units. An additional barrier to privatizing barracks is that funds to cover housing allowances for such personnel are not certain since these funds would need to come from the base operations account—an account that has traditionally been underfunded. Due to these barriers, officials doubt that privatization funds will be used extensively to improve the condition of the services' unaccompanied housing inventory.⁶

A further concern is that DOD may not have optimally integrated this initiative with the other tools available for addressing housing problems. For example, in September 1996, we reported that DOD could make greater use of available housing in local communities, as called for in its housing

⁵Our analysis differed from DOD's in that we (1) estimated housing O&M costs using the fiscal year 1999 budget request, (2) estimated allowances using the proposed occupancy paygrades and the 1998 housing allowance rates, (3) added an estimate for utility costs at Fort Carson, (4) added an estimate for management costs at Lackland Air Force Base, and (5) used the 1998 Office of Management and Budget discount rate.

⁶No projects have been approved and a \$5 million appropriation made to the Unaccompanied Housing Improvement Fund for this purpose remains largely unused.

policy.⁷ Our report noted that maximizing referrals to such housing is important since the government's annual costs are about \$5,000 per unit lower on average when acceptable and affordable housing can be found in the community than when on-base housing is provided. Although sufficient quantities of affordable civilian housing are not available at many installations, greater adherence to this policy in other instances and an improved housing requirements determination process are needed if DOD is to avoid building or revitalizing more housing than is needed under both military construction and privatization programs.

We have also found that DOD often views and manages military construction, privatization, and housing allowances as separate tools, rather than considering them in ways that achieve an optimum, synergistic impact. For example, our work has shown that the two separate DOD organizations that manage allowances and government housing, while ostensibly coordinating with one another, frequently manage their respective programs with limited knowledge of their impact on other aspects of DOD's housing program. To illustrate, when the new housing allowance program indexed to local housing costs was implemented this year, service housing officials could not tell us how the program will affect the privatization initiative. Coordination on this new initiative would appear to be important, since housing allowances could rise in some areas, thereby making more local housing affordable to servicemembers and lessening the need for renovation and construction. Capitalizing on the strengths of each housing tool through a more integrated approach is critical for DOD to ensure that the military's housing needs are met as efficiently as possible.

Demolition of Excess Facilities Is an Option for Reducing Excess Infrastructure

In May 1997, we reported that opportunities existed for DOD components to use demolition as an option for eliminating old, excess buildings that are relatively costly to maintain and can be a drain on declining O&M funding.⁸ The need for such an effort was illustrated by our findings that over a 10-year period, from fiscal year 1987 to 1996, total O&M annual budget authority declined by 25 percent in real terms, reflecting the overall decline in defense spending. However, annual O&M obligations for facilities maintenance and repair, excluding family housing, declined by 38 percent

⁷Military Family Housing: Opportunities Exist to Reduce Costs and Mitigate Inequities
(GAO/NSIAD-96-203, Sept. 13, 1996).

⁸Defense Infrastructure: Demolition of Unneeded Buildings Can Help Avoid Operating Costs
(GAO/NSIAD-97-125, May 13, 1997).

on average in real terms during the period.⁹ The Army had the steepest decline of all, about 49 percent. The problem was further illustrated by available data that indicated that, although servicewide maintenance and repair obligations had fallen about 38 percent over a 10-year period, reductions in square footage of space owned and managed by the services in the United States and overseas were much less—about 10 percent.

The DRI report identified 8,000 buildings totaling 50 million square feet of space as no longer needed and candidates for disposal. The DRI report indicates that DOD would be increasing funding for demolition to eliminate all of these buildings by 2003. Available data suggested the cost of demolition projects could be recouped in about 3 years depending on the type of structure, with annual savings in maintenance and repair, and utility costs to accrue thereafter. However, we noted the potential for demolition costs to vary, depending on the type of construction and environmental considerations, and thus cautioned that it would be important for the services to continue to examine the cost-effectiveness of demolition on an ongoing basis as part of their future planning.

We reported that demolition offers a viable option for further infrastructure reductions and millions of dollars in savings, but it requires an up-front cost. We have also noted that the services differ in the extent to which they have developed formal demolition programs. The Army is planning the most aggressive program and accounts for the majority of planned demolitions.

DOD indicated it prefers to use O&M funding for demolition not associated with new construction. The extent to which demolition is aggressively pursued in the future could be affected by future trends in this funding source and other competing priorities. Various service officials have expressed the view that earmarking and centrally controlling funds for demolition might help ensure funds are used for demolition. However, officials told us they were opposed to fencing funds for demolition because it constrained their flexibility to use the funds for higher priorities.

⁹Maintenance and repair obligations include spending for facilities measured in square feet and other types of infrastructure, such as runways, that are measured using different metrics. The services were unable to break out obligations by type of measurement, but told us that the majority of maintenance and repair obligations were for facilities measured in square feet.

Military Services and Defense Agencies Need to Capitalize on Consolidation and Regionalization Opportunities

Navy Regional Maintenance Program May Not Meet Its Goals

The DRI report includes several military service and support agency consolidation, restructuring, and regionalization initiatives that are intended to make DOD activities more efficient and support DOD's planned personnel reductions. Overall, we support these initiatives but, on the basis of our past and ongoing work, believe their potential has not yet been fully realized. As with the reengineering initiatives, most of these initiatives have been going on for several years but still face implementation challenges.

In 1996, the Navy reported that it applied more than \$8.5 billion of Navy resources to maintenance programs in support of fleet ships and aircraft. In response to force structure reductions and subsequent defense planning guidance to reduce excess maintenance infrastructure, the Chief of Naval Operations early in 1993 tasked the commanders of the Atlantic and Pacific Fleets to develop a strategy for streamlining and consolidating their maintenance functions. This led to the Navy's establishing the Regional Maintenance program in March 1994. In addition to reducing infrastructure and saving money, the program is designed to improve maintenance processes, integrate supply support and maintenance functions, and provide compatible data systems for the different maintenance functions. The program was to be implemented in three overlapping phases during fiscal years 1995-99 and was expected to save substantial amounts of money. In its 1995 program review, for example, the Navy decreased its planned O&M budgets for fiscal years 1995-99 by about \$1.3 billion in anticipation of such savings.

To date the Navy has focused its efforts on establishing a management structure and process for realigning and reducing its maintenance infrastructure at eight Navy regions. It has also been developing regional maintenance business plans, including initiatives and estimates of savings to be achieved. Subsequent to the start of the program, however, the Navy reduced the program savings' estimate to about \$944 million for 102 projects to be implemented between fiscal year 1994 and 2001.

In a recent report on the Regional Maintenance program,¹⁰ we reported that the Navy had made substantial progress in establishing a structured program but that savings had not materialized as anticipated. Further, the accuracy of savings that had been claimed by the Navy was questionable because they are not tracked and verified. Consequently, the Navy's actual savings may be far less than \$944 million and may not be achieved as soon

¹⁰Navy Regional Maintenance: Substantial Opportunities Exist to Build on Infrastructure Streamlining Progress (GAO/NSIAD-98-4, Nov. 13, 1997).

as expected. Because reductions had already been made to spending plans in anticipation of these savings, we reported that maintenance programs, the overall material readiness of ships and aircraft, or future fleet readiness could be negatively affected. For example, Navy officials told us they have thus far been able to absorb the reductions with no impact on readiness by fixing specific problems rather than performing scheduled depot-level overhauls. They were concerned, however, that this approach might adversely affect the condition of ships over the long term.

Nevertheless, we felt the Navy could still achieve significant savings by moving more quickly to implement the savings initiatives that had been identified and, where appropriate, implementing other initiatives that could yield savings without affecting readiness. To do this, however, the Navy had to overcome parochial and institutional resistance to the program's objectives. These include resistance to efforts that might eliminate organizations, reduce jobs, and/or reduce a command's or an organization's control over resources. Other barriers that also had to be addressed were (1) the lack of management visibility over all maintenance-related costs; (2) multiple, unconnected management information systems that do not provide adequate data for regional maintenance planning and decision-making; and (3) significant differences in the number of shore duty intermediate-level maintenance positions needed to support the Navy's sea-to-shore rotation program and the number of personnel needed to perform the work. Although the Navy has established regional maintenance working groups and committees to address these issues, continued high-level commitment, cooperation, and coordination from the Chief of Naval Operations, the fleet, and type and systems commanders will be required to ensure that regional initiatives reach fruition and achieve the savings projected.

Increased Use of Interservicing Support Arrangements Could Provide Savings Opportunities

Our April 1996 report on interservicing¹¹ found that, even after several years of defense downsizing,¹² DOD operates hundreds of major military bases and many smaller facilities in the United States. These bases range in size from less than 10 acres to several hundred thousand acres. Further, some bases are adjacent to each other such as Fort Bragg and Pope Air Force Base in North Carolina; others, while not adjacent, are within a

¹¹Military Bases: Opportunities for Savings in Installation Support Costs Are Being Missed (GAO/NSIAD-96-102, Apr. 23, 1996).

¹²Interservicing refers to reliance of one service on another, typically in the base operations support area. Base supporting services vary and can include property maintenance, logistics, transportation and equipment maintenance, personnel and professional support, and service to individuals, such as food, housing, recreation, or education.

relatively short distance from each other. We reported that DOD has long recognized the potential for savings in base support services through interservicing and many interservicing agreements exist on a limited basis. However, our work suggested that the military services have not taken sufficient advantage of potential opportunities to achieve significant savings in base operating support costs through greater reliance on larger-scale interservicing arrangements.

In completing our study of interservicing, our discussions with DOD and service officials at all levels pointed to a variety of problems and impediments that they believed historically had limited base support consolidation and interservicing—problems that continued to exist. Some reluctance to embrace increased interservicing was attributed to service parochialism, commanders' concerns about losing direct control over their support assets, and loss of ability to influence servicing priorities that commanders deemed important. Likewise, differences in traditions, cultures, practices, and standards among the services were often cited as inhibiting greater emphasis on interservicing arrangements. Base housing was often cited as an area having the greatest potential for interservicing. However, within the services, we found widely held views about differences in quality of on-base housing provided to service personnel among the services, with the Air Force being known for providing a higher standard of housing than the other services. More generally, the perception often existed that the Air Force had a higher quality-of-life standard and was willing or able to devote more resources to maintaining that standard than the other services.

Differences between the services were seen as having significant implications for interservicing arrangements and were factors in a failed Hawaii housing consolidation effort in 1994. For that reason, we found it interesting that the DRI report noted that "in areas of heavy concentration of installations, we can save funds by sharing infrastructure and services across commands, bases, and the Services. . . . The Joint Staff is now analyzing regionalization across all Services in Hawaii." We applaud the efforts of the Joint Staff, but, on the basis of our previous work, suggest that such changes may be difficult to achieve quickly and may require special steps to ensure long-term success. A number of service officials with whom we discussed such issues previously pointed to the relatively short tours of duty of base commanders that can limit institutional knowledge of long-term needs and can often result in commanders focusing on short-term projects and not on major changes in base operations involving long-term planning and implementation.

We also were told that differences in philosophy from one commander to another can sometimes lead to a reversal of previously initiated interservicing efforts. Some service officials suggested that these impediments could be overcome either through greater reliance on civilian management of base operations or by basing a portion of an installation commander's proficiency assessment on the commander's efforts to foster greater efficiencies in base operations. Our general management work has shown that continuity of management is a key factor to ensuring the ultimate success of major initiatives in other federal agencies.

The Finance and Accounting Infrastructure—Potential for Further Reductions

The Defense Finance and Accounting Service (DFAS) was established in 1991 to consolidate and streamline DOD's finance and accounting operations. In May 1994, after several false starts, DOD announced that DFAS would begin consolidating the finance and accounting infrastructure in fiscal year 1995. At that time, the plan was to reduce the number of sites where finance and accounting activities were conducted from over 330 to 26. The 26 sites included the 5 existing large finance centers (Columbus, Cleveland, Denver, Indianapolis, and Kansas City) and 21 new sites called operating locations. As part of this consolidation, DFAS expected to reduce its staffing levels from about 27,000 to 23,000 people. DFAS told us that, as of September 30, 1997, it had reduced staffing to about 21,900 people and opened 18 of the 21 operating locations.¹³

We have issued several reports that questioned the need for 21 operating locations.¹⁴ Our primary concern was that DOD used a flawed process to identify the size and location of its consolidated operations. Among other things, we reported that the planned infrastructure was larger than necessary, primarily because DOD had not considered the impact that future business improvements would have on the finance and accounting workload. We concluded that, as these business improvements were adopted, DFAS would have to consolidate its activities once again. We also pointed out that an earlier DFAS analysis had concluded that the existing five finance centers and six operating locations was the optimum structure for conducting finance and accounting operations.

¹³One of the 18 operating locations (Memphis) is under the control of the US Army Corps of Engineers and supports the Corps' accounting and finance operations.

¹⁴DOD Infrastructure: DOD's Planned Finance and Accounting Structure Is Not Well Justified (GAO/NSIAD-95-127, Sept. 18, 1995); DOD Infrastructure: DOD Is Opening Unneeded Finance and Accounting Offices (GAO/NSIAD-96-113, Apr. 16, 1996); and Defense Infrastructure: Budget Estimates for 1996-2001 Offer Little Savings for Modernization (GAO/NSIAD-96-131, Apr. 4, 1996).

A recent DFAS analysis has concluded that the finance and accounting infrastructure does, in fact, need to be further consolidated. This analysis, which assessed each finance and accounting function carried out at operating locations (such as vendor pay, civilian pay, travel pay, and accounting), showed that DFAS would be able to reduce the number of employees from about 21,400 in fiscal year 1998 to about 15,350 by the end of fiscal year 2003. These reductions would be realized, in part, by technology initiatives underway at DFAS and, if they occur, would leave DFAS with about 38 percent excess facility capacity.

The analysis did not translate this excess capacity into a specific number of locations that should be eliminated. Nevertheless, the DRI report stated that DFAS would continue its consolidation initiatives by eliminating 8 of its 26 finance and accounting facilities. DFAS is currently developing criteria to help it determine which locations should be eliminated. Once these criteria are approved, which is expected by May 1998, DFAS plans to take from 3 to 6 months to further study its infrastructure needs and select the sites that will be closed. At this point, DFAS does not expect to close more than eight facilities.

Defense Information Systems Agency—Status of Consolidating Its Megacenters

The DRI report calls for the Defense Information Systems Agency to reduce its infrastructure from 16 to 6 large processing facilities. This initiative is a continuation of DOD efforts that began in 1990. Since that time, the Defense Information Systems Agency was created and eventually consolidated many of DOD's computer operations by moving workload and equipment from 194 computer centers to 16 megacenters. These actions were taken to better meet DOD's information processing needs at lower costs. The megacenters operate as part of the defense working capital fund and bill their customers for the processing support they provide. We should note that the military services and defense agencies also operate many processing centers and, like the Defense Information Systems Agency, also have consolidated some of their information processing facilities.

Our previous work on information processing center consolidations pointed out that, although DOD had recognized the need to continue to reduce the cost of its computer center operations, it had not established an effective framework for making these decisions.¹⁵ Such a framework would help DOD determine the number of processing centers needed, the way to consolidate the various computer operations, and the numbers and skill mix of staff needed to operate the consolidated centers. We believed

¹⁵Defense IRM: Investments at Risk for DOD Computer Centers (GAO/AIMD-97-39, Apr. 4, 1997).

this framework or plan was needed because our work documented that, although additional efficiencies could be realized, it was not clear whether these would be best achieved by further consolidations or outsourcing. DOD partially agreed with our point, stating that it would comply with the Clinger-Cohen Act and develop a framework to determine whether processing centers should remain in-house or be considered for outsourcing studies.¹⁶

The Defense Megacenter Business Strategy, dated October 1997, states that the Defense Information Systems Agency's plan to reduce the 16 megacenters to 6 megacenters could result in annual savings of \$202 million starting in fiscal year 2003. Moreover, the strategy estimates that total savings over a 10-year period (fiscal years 1998 through 2007) will be approximately \$1.5 billion. We have not done any work to examine this strategy or substantiate these savings. These savings should help reduce infrastructure costs and, thereby, result in lower prices to its customers. We are reviewing how the Defense Information Systems Agency establishes the prices it charges its customers. In the future, we intend to review the cost of the consolidation effort and the impact it is having on customer service.

Future Plans to Address Excess Capacity in Research, Development, Test, and Evaluation Laboratories Are Unclear

Each of the military services operate (1) research and development laboratories to develop new or enhance existing military technology and (2) test and evaluation centers to demonstrate and validate the capabilities of these technologies. DOD's research, development, test, and evaluation facilities employ about 100,000 people in 67 federally owned facilities located primarily in the continental United States. For fiscal year 1997, the DOD budget for these laboratories totaled just over \$37 billion.

Our most recent work, completed in January 1998,¹⁷ pointed out that DOD's research, development, test, and evaluation infrastructure continues to have excess capacity—an estimated 35 percent in its laboratories and an estimated 52 percent in its test and evaluation centers in the air vehicles, electronic combat, and armaments/weapons areas. This condition exists even though DOD will have reduced funding, personnel, and force structure and closed 62 research, development, test, and evaluation sites and activities at host sites as part of the previous BRAC process.

¹⁶The Clinger-Cohen Act of 1996 (P.L. 104-106) requires that federal agencies establish performance measures that measure how well their information technology supports their missions and programs and that evaluations be made of the results achieved from their information technology investments.

¹⁷Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

The focus of our recent work was primarily on how best practices might be used to reduce excess capacity in DOD, the Department of Energy (DOE), and the National Aeronautics and Space Administration. These agencies represent about 72 percent of all federal investment in research and development and own most of the infrastructure. During this work, we identified five critical elements that led to the successful downsizing of unneeded laboratory infrastructure at the Boeing Company's Information, Space, & Defense Systems Group and the Defence Research Agency within the British Ministry of Defence. These elements were (1) a "crisis" that served as a catalyst to spark action; (2) an independent authority to overcome parochialism and political pressures that, if left unchallenged, would have impeded decision making; (3) core research, development, test, and evaluation missions focused to support the organization's overall goals and strategies; (4) the infrastructure needed to support the overall goals and strategies clearly defined; and (5) accurate, reliable, and comparable data that captured total infrastructure cost and utilization rates for each research, development, test, and evaluation activity. According to officials managing these restructurings, their success depended on using all five of the elements together.

Our report also discusses the actions that DOD has taken to address its excess research, development, test, and evaluation infrastructure. For example, after full implementation of previous BRAC recommendations, DOD and the Congress realized that the infrastructure was still too large. Consequently, the National Defense Authorization Act for Fiscal Year 1996 (sec. 277) directed the Secretary of Defense to develop a 5-year plan to consolidate and restructure DOD's research, development, test, and evaluation facilities for the 21st century. The Secretary was to identify the administrative and legislative actions needed to consolidate facilities into as few as practical and possible by October 1, 2005. The Secretary responded with a plan and developed a legislative package entitled Defense Research, Development, Test, and Evaluation, Vision 21, Reduction, Restructuring, and Revitalization Act of 1997 (commonly referred to as Vision 21). However, while the legislative package was being reviewed for interagency coordination, officials from the Office of Management and Budget told DOD to include a provision for an independent commission, since DOD historically has been unable to reduce significantly its research, development, test, and evaluation infrastructure. This commission—similar to previous BRAC commissions—would make the final realignment and closure recommendations to the Congress.

After the Quadrennial Defense Review was completed in May 1997, DOD decided not to submit the Vision 21 legislative package to the Congress, opting instead to include research, development, test, and evaluation infrastructure consolidations and reductions in any future BRAC rounds. DOD also emphasized that significant reductions could only be achieved under a BRAC-like authority.

With Vision 21 on hold and future BRAC legislation uncertain, it is unclear at this time to what extent DOD will attempt to consolidate and restructure its research, development, test, and evaluation infrastructure and how it might proceed. The DRI report briefly discusses the issue but provides no further information on how DOD will deal with infrastructure reduction. It states that each military department will review its research, development, test, and evaluation facilities to identify restructuring opportunities. As we stated in our report, we believe the extent to which DOD's Vision 21 effort proceeds may be largely dependent on continuing congressional support for reductions. Moreover, we endorsed DOD's view that an independent BRAC-like authority, such as that provided by the Vision 21 legislative package, is needed to reduce DOD's research, development, test, and evaluation infrastructure.

Questions About Savings and Other Issues Surround Discussion of Authorizing Future Base Closure Rounds

While the Secretary of Defense wants congressional authority to close additional military bases, questions remain about the extent of savings from prior closures, and concerns exist about how some decisions were implemented as part of BRAC 1995. Legislation governing BRAC rounds held in 1991, 1993, and 1995 is viewed by many as a good starting point for considering future legislation.

The DRI, the 1997 Quadrennial Defense Review, and the 1997 report of the congressionally mandated National Defense Panel each cited the problem of continuing excess infrastructure within DOD and recommended that additional BRAC rounds be held. The Secretary of Defense recently submitted a legislative proposal to the Congress requesting authority to conduct additional BRAC rounds in 2001 and 2005. The legislation proposed was similar to the Defense Base Closure and Realignment Act of 1990 (P.L. 101-510) which authorized BRAC closure rounds in 1991, 1993, and 1995 and helped overcome legal impediments to base closures enacted during the 1970s. The 1990 legislation expired at the end of 1995. The most recent legislative request followed an unsuccessful effort last year by the Secretary of Defense to win congressional approval for additional BRAC rounds.

After considering the Secretary's request last year for additional BRAC round authority, the Congress enacted section 2824 of the National Defense Authorization Act for Fiscal Year 1998. This section requires that the Secretary of Defense provide the Congress with an extensive report on BRAC costs and savings and other issues. The report is to be submitted to the congressional defense committees not later than the date on which the President submits to the Congress the budget for fiscal year 2000. We understand that the Secretary expects to submit that report to the Congress in April 1998. We are monitoring DOD's development of that report, as required by section 2824 and will be working to more fully assess and provide the Congress with our assessment of the Secretary's report once it is provided to the Congress.

Closing unneeded defense facilities has historically been difficult because of public concern about the economic effects of closures on communities and the perceived lack of impartiality of the decision-making process. Legislation enacted authorizing BRAC rounds and its implementation in BRAC rounds held between 1988 and 1995 helped to mitigate those concerns. However, certain implementation actions related to the 1995 BRAC round have resulted in questions about the impartiality of those actions. In addition, concerns about the actual costs and savings from BRAC, and the economic impact on affected communities, have caused some to question whether future BRAC rounds should be authorized. Ultimately, the Congress will decide whether to approve future BRAC rounds.

Although questions continue to exist about savings from prior BRAC rounds, our work has shown that net savings from prior BRAC rounds are expected to be substantial but will not occur as quickly as originally expected. Also, because DOD has not adequately tracked changes in initial savings estimates, questions have existed about the reliability of the savings projections. On a number of occasions, we have cited the need for DOD to improve its process for tracking and updating BRAC savings estimates.¹⁸ Questions also exist about the magnitude of savings likely to occur from any future BRAC rounds. However, credible savings projections concerning any future rounds are likely to be difficult to obtain until such time as actual closure recommendations are known along with the details of how individual closure actions would be executed.

¹⁸Military Bases: Lessons Learned From Prior Base Closure Rounds (GAO/NSIAD-97-151, July 25, 1997); Military Bases: Closure and Realignment Savings Are Significant, but Not Easily Quantified (GAO/NSIAD-96-67, Apr. 8, 1996).

We reported last year that the 1990 legislation, which expired in 1995, was seen by many officials as a starting point for considering new legislation should the Congress decide that it wants to authorize any future BRAC rounds.¹⁹ Key elements of the BRAC legislation that DOD and BRAC commission officials said contributed to the success of prior rounds included (1) the establishment of an independent commission and nomination of commissioners by the President, in consultation with the congressional leadership; (2) the development of clearly articulated, published criteria for decision making; (3) use of data certified as to its accuracy; (4) the requirement that the President and the Congress accept or reject in their entirety the lists of closures adopted by the BRAC commission; and (5) the creation of tight time frames to force the process to reach decisions in a timely manner. The legislation also required that we analyze DOD's BRAC decision-making process and recommendations. Additional audit coverage by the DOD Inspector General and service audit agencies associated with the process evolved over time and helped ensure the accuracy of data and analyses associated with the decision-making process.

We recognize that no public policy process, especially one as open as BRAC, can be completely removed from the U.S. political system. However, the processes used between 1988 and 1995 had several checks and balances to keep political influences to a minimum. At the same time, the success of these provisions requires that all participants of the process adhere to the rules and procedures.

Long-Range Facility Plans Are Needed

Our February 1997 high-risk report on infrastructure²⁰ noted that, to its credit, DOD has programs to identify potential infrastructure reductions in many areas. However, breaking down cultural resistance to change, overcoming service parochialism, and setting forth a clear framework for a reduced defense infrastructure are key to avoiding waste and inefficiency. To do this, we noted that the Secretary of Defense and the service secretaries needed to give greater structure to their efforts by developing a more definitive facility infrastructure plan. We said the plan needed to establish time frames and identify organizations and personnel responsible for accomplishing fiscal and operational goals.

¹⁹Military Bases: Lessons Learned From Prior Base Closure Rounds (GAO/NSIAD-97-151, July 25, 1997).

²⁰High-Risk Series: Defense Infrastructure (GAO/HR-97-7, Feb. 1997).

We suggested that this plan be presented to the Congress in much the same way that DOD presented its plan for force structure reductions in the Bottom-Up Review. This would provide a basis for the Congress to oversee DOD's plan for infrastructure reductions and allow the affected parties to see what is going to happen and when. We noted that, in developing the plan, DOD should use a variety of means to achieve reductions, including such things as consolidations, privatization, outsourcing, reengineering, and interservicing agreements. We also said it should also consider the need for and timing for future BRAC rounds. Likewise, such a plan should also encompass recapitalization and upkeep of remaining infrastructure.

Existing Plans Have Important Limitations

Our May 1997 report on demolition noted that planning by the Office of the Secretary of Defense and the services for facilities maintenance and repair, including revitalization of facilities infrastructure, was limited.²¹ Those plans that did exist were not focused on long-term comprehensive strategies for facilities revitalization, replacement, and maintenance, and they were not tied to measurable goals to be accomplished over specified time frames or linked to funding.

The Deputy Under Secretary of Defense (Industrial Affairs and Installations) testifying before this Subcommittee on February 26, 1998, recognized the absence of and need for improved planning for facilities infrastructure. The Deputy Under Secretary stated that to "ensure the best allocation of our resources, the Department has initiated a process to establish long-range facilities plans for each Service. This cross-functional effort, an outgrowth of the Quadrennial Defense Review, is intended to guide the development of future programs and budgets and evaluate their effectiveness".

The need for improved planning for facilities infrastructure is also underscored by the requirements of the Government Performance and Results Act. The act requires federal agencies, including DOD, to develop agency wide strategic plans by September 30, 1997, and annual program performance reports beginning March 21, 2000. The strategic plans must cover at least a 5-year period and include an agency's mission statement and goals. They must also describe how an agency plans to achieve its

²¹In July 1997, OMB provided guidance to federal agencies on the planning, budgeting, and acquisition of capital assets in its Capital Programming Guide, which was a supplement to OMB Circular A-11, Part 3. This guidance integrated the various administration and statutory asset management initiatives into a single, integrated capital programming process to ensure that capital assets contributed to the achievement of agency strategic goals and objectives.

goals through its activities and its human, capital, information, and other resources, such as facilities.

Performance plans must include measurable performance goals, where feasible, and the indicators for measuring performance. Performance reports must compare actual performance with performance goals and explain what needs to be done when goals are not met. Such performance reporting for DOD's infrastructure should include, as part of DOD's assessment of the program's efficiency in meeting performance goals, the measurement of actual against expected facility infrastructure maintenance costs. Such periodic reporting should also identify and facilitate monitoring estimates of the costs associated with deferred facility maintenance.

Improved infrastructure planning can help agency components and programs to develop outcome-oriented goals and performance measures that are linked to and support agencywide goals. Our report on DOD's implementation of the Government Performance and Results Act notes that the Senate and House reports on the legislation anticipate that strategic planning will be institutionalized and practiced at all organizational levels throughout the federal government.

Mr. Chairman, this concludes my prepared remarks. We would be pleased to answer any questions that you or members of the Subcommittee might have.

Related GAO Products

Defense Management: Challenges Facing DOD in Implementing Defense Reform Initiatives (GAO/T-NSIAD/AIMD-98-122, Mar. 13, 1998).

DOD's Government Performance and Results Act Implementation (GAO/NSIAD/GGD-97-65R, Jan. 31, 1997).

Best Practices: Elements Critical to Successfully Reducing Unneeded RDT&E Infrastructure (GAO/NSIAD/RCED-98-23, Jan. 8, 1998).

Navy Regional Maintenance: Substantial Opportunities Exist to Build on Infrastructure Streamlining Progress (GAO/NSIAD-98-4, Nov. 13, 1997).

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Military Family Housing: Opportunities Exist to Reduce Costs and Mitigate Inequities (GAO/NSIAD-96-203, Sept. 13, 1996).

Navy Financial Management: Improved Management of Operating Materials and Supplies Could Yield Significant Savings (GAO/AMD-96-94, Aug. 16, 1996).

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